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HRI Food Service Sector

Report

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Report Highlights:

International cuisines have gained popularity and essentially changed the profile of restaurant business in Estonia. Fast food chains are popular with young Estonians. Restaurants mostly cater to high/middle income groups, the growing expatriate community, and the increasing numbers of tourists and visiting businessmen. The tourism business is the key market driver. There were about 1.3 million visitors to Estonia, which is approximately equal to the country's population. **Prospects for HRI sector development are good.** Sales by the food catering sector grew to US\$ 116 million in 2000. The major current constraint is the Estonian tariff schedule that places European suppliers and partners of Free Trade Agreements at a price advantage vis-a-vis U.S. suppliers.

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I. Market Summary

Estonia was among the fastest growing economies in Europe in 2000. A 6.4 percent rate growth for the economy was supported mainly by increased external demand, investments and household spending. In 2000, per capita GDP amounted to US\$ 3,704, which is considerably lower than the average for EU countries. As of mid 2000, there were 1.38 million inhabitants in Estonia, a decline by almost 8 percent since 1990. The Estonian population is aging. This reflects the approach to retirement age of the post-war baby boom generation. Women account for 48 percent of the workforce and contribute to the increased demand for meals consumed away from home.

A successful hotel/restaurant sector has rapidly developed in Estonia, and in many cases new operations are joint ventures established with foreign firms. **Fast food restaurants and various national and ethnic cuisines have gained acceptance among Estonian consumers. Restaurants mostly cater to the high/middle income groups, a growing expatriate community, and an increasing number of tourists and visiting businessmen. The tourism business is the driving force behind the development of the hotel and restaurant sector. In 2000, there were about 1.3 million visitors to Estonia.**

International cuisine has gained popularity and essentially changed the profile of the Estonian restaurant business. The food catering market has grown by 40 percent over the last 5 years, and amounted to US\$116 million in 2000, of which food sales accounted for US\$ 76.5 million (66 percent) and sales of alcoholic beverages accounted for US\$ 39.5 million. This is an increase of 49 percent compared to 1996.

Sales by Type of Food Catering, (US\$ Mil)

Sales*	1996	1997	1998	1999	2000
Restaurants and bars	51	63	74	72	86
Hotels and resorts	15	18	20	14	15
Institutional catering	17	21	33	23	15
Total	82	102	127	109	116

(*Note: The exchange rate used in this report: US\$ 1 equals 17 EEK)

Customer Profile

Preferences for fast food restaurants, international and oriental cuisines and out of home dining are strong among the younger population, but a significant number of consumers remain at "the tasting level." Incomes have stabilized and have increasingly been able to meet more of consumers' basic needs.

However, income is skewed in favour of urban areas. The average gross monthly wage in the public

sector was US\$ 338 in 2000, while the average monthly per capita income of households amounted to only US\$ 138.

With a large proportion of two income families, out-of-home dining is essential in nearly half of the households. Estonians spend approximately 13 percent of their total food dollar on eating out. **Of the total population, 26 percent is retired. The average pension of US\$91 per month allows for almost no variety in food purchases/diets.** Nearly 30 percent of population lives in rural areas. In many rural households, farming provides daily staples and income and purchasing power are limited.

TABLE OF ADVANTAGES AND CHALLENGES

ADVANTAGES	CHALLENGES
The general image of U.S. products is positive. They are considered safe and of good quality. Businesses are receptive to U.S. companies.	US products face competition from domestic producers and increasing imports from European countries and Baltic FTA neighbours.
The growing HRI sector is looking for quality processed food imports.	Estonia is a small target market for US products.
Purchasing power of the population in general is on the rise.	Income in rural areas is still low.
Estonia joined the WTO in December 1999, improving market access.	U.S. exports face MFN duty rates compared to preferential tariffs and zero rates for exports from the EU and FTA partners.

II. Road Map For Market Entry

A. Entry Strategy

Market entry strategies for U.S. food products should include:

1. Market research in order to assess product opportunities.
2. Advance calculation of the landed cost of a product in order to make price comparisons vis-a-vis competitors.
3. Locating an experienced distributor or independent reliable agent with strategic distribution channels to advise on import duties, sanitary regulations, and labelling requirements. It is advisable to initiate personal contact in order to discuss marketing matters. Suppliers may also want to consider trade fair participation to raise awareness of their products.

Constraints which have contributed to the small market presence of U.S. food products:

- Trade terms of U.S. companies have tended to require advance payment of up to two months.

- An aversion to the assumption of exchange rate risks.
- A perception that persists among importers that landed costs of U.S. products will be higher compared to European products due to higher **transportation costs**.
- **A perception that U.S. exporters are simply too far away to service this market.**
- **Estonian importers and buyers have had a little exposure to U.S. products.**

B. Market Structure

A centralized supply system for hotels and restaurants still does not exist, despite efforts made by the Estonian Hotel and Restaurant Association to create one. The most effective strategy for U.S. exporters targeting the HRI sector would be to connect with the importers/wholesalers servicing the food sector and to explore the needs of a specific restaurant or fast food chain. Catering enterprises purchase most products from wholesalers and processors. Distributors and processors provide direct deliveries with their own sales force and delivery trucks. Cash and carry operations are common. Given the relatively small consumer base in the Baltic countries (which have an aggregate population of about 8 million), the emergence of pan-Baltic importers/wholesalers, with centralized distribution schemes will help to achieve the economies of scale needed to make imports viable.

C. Profiles of Sub-Sectors

1. Restaurants

In 2000, sales by restaurants and bars accounted for 78 percent of the food service market and the sector is showing growth. There were 237 restaurants on the market in 2000, of which 147 were fast food enterprises. Catering services are primarily operated by individual restaurants. The number of bars totalled 596, an increase by 18 percent from 1996. In addition, there were 503 coffee shops/cafeterias and 186 beer pubs.

Table: Profiles of Restaurants

Company Name	Sales 2000, US\$Mil	Number of Outlets	Location	Purchasing Agent
Demjanov AS	1	2	Tallinn	Import Agent
Toidutare	0.9	4	Tallinn	Direct
Tuuleveski OU	0.5	5	Tallinn and rural	Direct
Astru AS	0.5	4	Tallinn and rural	Direct

International and ethnic cuisine is gaining popularity among the traditionally conservative Estonian population. Tallinn's restaurants now offer considerable variety in cuisine including: international (Eestlital, Egoist, Hermitage, Gloria, Gnoom, Stenhus, Toomkooli Tollad, Lubeck, Le Paris, etc.), Chinese

(AiSha Ni Ya, China Town, Chine White, Golden Dragon, Kathmandu, Little China, Prking) American (Cantina Carramba, Pizza Americana), food from the Caucasus (Must Lammas, Pirosmeni), Greek (Vasilio), Hungarian (Egeri Kelder, Kapten Tenkes), Indian (Elevant, Maharaja, Tanduur), Italian (Buon Giorno Spagetteria, Byblos, Casanova, Controvento), Japanese (Ami-Ja), Jewish (Shalom), Korean (Ariran, Kim), Russian (Klafira, Troika), and Thai (Siam, Sue Ka Thai). Olde Hansa, Finns-run, and Oliver focus on grilled meats. Laguun, Mekkala and Admiral (an old steamship) focus on seafood.

The most notable fast food chain is McDonalds (U.S.) with five outlets in Estonia. About 15 percent of the food products used by this chain is sourced locally, but the balance is imported. Hesburger (Finland) obtained the local chain Carrols, and Peetri Pizza purchased the Pappa Pizza Estonian operation. The variety of meals offered by local fast food restaurants is increasing, and Nehatu is the leader. The demand for take-out and office delivery is on the rise and Peetri Pizza is most advanced in accepting orders online. Recently Japanese, Italian, Mexican and Chinese restaurants started to expand operations at hypermarkets and shopping centres.

Table: Profiles of Fast Food Restaurants

Company Name	Sales 2000, US\$Mil	Number of Outlets	Location	Purchasing Agent
Mc Donalds	4.2	5	Tallinn	Import Agent
Hesburger	1	4	Tallinn	Direct
Nehatu	0.8	4	Tallinn	Direct
Peetri Pizza	0.8	11	Tallinn	Direct

Gourmet restaurants are popular among residents with higher income levels, expats and tourists. Much of the fresh products is purchased locally, but poultry, pork, fish and seafood, beverages, sauces and spices are major import items demanded by the Estonian restaurant trade, and their value is estimated at US\$40 million annually (47% of total).

Hotels

The hotel business has expanded quite notably over the past 3 years in Estonia. The majority of hotels are located in Tallinn, the capital. Hotels and guest houses numbered 350 in late 2000. The leading hotel chains are Reval Hotelligroup AS, which belongs to Linstow International of Norway, and Scandic Hotels. Each of these chains has four hotels at present. The Viru Hotel was bought by Finnish investors in 1994, and after refurbishing has become the largest hotel in Estonia outside chains. The SAS Radisson Hotel opened in 2001. The average hotel occupancy ranges from 45-55 percent in Estonia.

Food and beverage sales by the hotel/guest house sub-sector were estimated at US\$ 15 million in 2000, accounting for 13 percent of the total. Hotel catering departments use much imported food products, beverages and wine. Imports account for about 20 percent of the hotel catering food and

beverage purchase. A centralized supply system for hotels and restaurants doesn't exist, despite the Estonian Hotel and Restaurants Association's efforts to create one in order to lower costs. The majority of imports are sourced through import agents. Locally grown products are sourced from wholesalers and directly from processors, e.g. meat from Rakvere Lihakombinaat, dairy products/ice cream from Tallinn dairy (Tallinna Piimakombinaat) and Tallinn Cold Storage (Tallinna Kulmhoone). Fish products are supplied by domestic fisheries, and imported fish is sourced through agent companies.

Table: Hotel Catering

Company name	Sales of Food and Beverages 2000 (US\$Mil)	Type of outlet	Location	Purchasing Agent
Reval Hotel Group	5	6 restaurants, 4 bars	Tallinn	Agents, wholesalers
Viru Hotel	3	2 restaurants, 2 bars	Tallinn	Agents, wholesalers
Scandic Hotels	2.5	5 restaurants	Tallinn, Parnu, rural	Agents, wholesalers

The high end of hotels is represented by Domina City and Domina Ilmarine (Domina Hotels Group), Reval Park Hotel, Radisson SAS, Scandic Hotel Palace, Viru, St. Petersburg and Schlosse Park hotels (Consul Hotel Group). Tourist/economy class hotels include Reval Olympia (St. Barbara, Reval Central). Many small exclusive hotels offer gourmet meals at their restaurants. Special menu "fortnights" are arranged by some leading hotel restaurants in Estonia to feature select international cuisines. International chefs are flown in for such events. Hotels also practice to invite world famous chefs who develop a new a la carte during a period of their stay. Some tourist class hotels widely advertise business lunches at moderate prices to attract the office crowd.

3. Institutional Catering Establishments

The sub-sector of institutional establishments is the smallest, and accounts for 13 percent of total HRI sales. The most notable company offering catering services in Estonia is Amica Fazer (Estonian-Finnish joint venture). About 35 percent of food supplies to institutional establishments was delivered by the Estonian farm sector, some 45 percent purchased directly from domestic processors, and the remainder was sourced at wholesalers/distributors.

About 85 percent of food supplies to this sector are of domestic origin. Imports include edible oil, pasta, fruit and vegetable preparations and sauces. This sector is stable, and no considerable growth is foreseen.

SECTION III. COMPETITION

In 2000, the value of consumer-oriented agricultural imports was US\$ 282 million. Among the largest imports were beverages, meat products, fresh and canned fruits and vegetables, coffee, tea. In 2000, U.S. exports to the Estonian market totaled US\$ 8.6 million. The U.S. is the leading supplier of poultry to Estonia with 38 percent of market (7 thous. MT, US\$ 4.3 million). Other major U.S. exports were fish, dried fruits, nuts, oilseeds, vegetable and fruit preserves, fruits and vegetables, wines, liquors and cigarettes.

European food exporters have captured market shares with a strong market presence over the last five-six years as a result of proximity, historical ties, competitive prices, product familiarity, logistical advantages and a service orientation that is essential for companies with a serious interest in establishing a market presence. In 2000, the EU accounted for nearly half (49 percent) of all food imports into Estonia.

The import tariff schedule enforced January 1, 2000 seriously disadvantages competition from the United States. Under the Baltic Free Trade agreement signed between Estonia, Latvia and Lithuania, as well as FTAs with the EU, EFTA and CEFTA countries, exports from countries which are parties to these agreements are advantaged by preferential tariff schedules of lower or zero duties. Such tariff rate changes are a prelude to Estonia's accession to the EU. Given the current trade flows, these MFN custom tariffs presently apply to about 15% of all agricultural and food imports, but remaining 85 percent enter Estonia without customs duties. The highest MFN duty rates stand at 25-33 percent for pork, 48 percent for poultry meat, 39 percent for sausages, 10 percent for chicken legs and wings, 59 percent for rye, and 40-45 percent for barley and oats.

For import tariff rates visit: <http://www.legaltext.ee/en/andmebaas/ava.asp?m=022> and type "Most Favoured Nation Customs Duty Act" in the SEARCH window.

SECTION IV. BEST HIGH VALUE PRODUCT PROSPECTS

There are opportunities for dry, chilled and frozen processed products. Barbeque foods/sauces, fresh fruits, vegetables, fish, seafood, and wine are among the best prospects. Tex Mex ingredients and other ethnic foods are increasing in popularity.

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

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For including your product offers into the Baltic regional "virtual trade fair," check site

<http://www.food-fair.com>

For general questions about exporting to Estonia, please contact:

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For more information on exporting U.S. agricultural products to the Nordic/Baltic region, please visit the FAS/Stockholm regional office at: www.usemb.se/Agriculture. www.fas.usda.gov and the USDA, FAS homepages for exporting to other countries